



STATE BOARD OF EQUALIZATION

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No. 79/39

February 27, 1979

TO COUNTY ASSESSORS:

REAL PROPERTY VALUE CHANGES

Here is another in the series of letters concerning the implementation of Article XIII A of the Constitution. The attached questions and answers illustrate the proper valuation procedures to be followed when considering declines in real property values and replacements following calamity under the provisions of Board Rules 460, 461, and 463 as amended on January 25, 1979.

Please refer any inquiries or additional questions to Mr. John McCoy of this division, (916) 445-4982.

Sincerely,

Verne Walton, Chief
Assessment Standards Division

VW:sk
Enclosure

A. QUESTIONS & ANSWERS PERTAINING TO
DECLINE IN VALUE

1. QUESTION: How is value loss measured?

ANSWER: By comparing the full value of a unit of property on March 1 to the base year value of the same unit factored to the appropriate lien date (full cash value base).

2. QUESTION: Must 1978 roll values be corrected if the full value of a property as of March 1, 1978 was below the full cash value base at that time?

ANSWER: No. The new rule amendments are not retroactive. Value declines will first be considered on the 1979 roll.

3. QUESTION: What types of value losses must be considered?

ANSWER: All factors causing a decline in value, including physical, functional, and economic depreciation.

4. QUESTION: When is value loss measured?

ANSWER: As of the lien date for which the roll is being prepared.

5. QUESTION: If current full value is below the full cash value base, is a new base year established?

ANSWER: Yes. The current lien date would establish a new base year and the current full value a new base year value.

6. QUESTION: What if an improvement (other than machinery or fixtures) declines in value from a cause other than calamity or misfortune but the parcel's land value increases?

ANSWER: The land and improvement make up the appraisal unit. If the increase in land value offsets the decrease in improvement value, no reduction will be considered.

7. QUESTION: Are tree and vine values considered separately from land?

ANSWER: No. Trees and vines are improvements, and increases in land value can offset any decline in living improvement values.

8. QUESTION: If an improvement suffers from physical depreciation and a new base year value is established, can the former base year factored value be reinstated if the improvement subsequently increases in value?
- ANSWER: No. Once a new base year value is established increases are limited to 2 percent per year unless the property sells or new construction occurs.
9. QUESTION: Can declines in machinery and equipment values be offset by increases in land or other improvement value?
- ANSWER: No. Machinery and fixtures classified as improvements are considered separately.
10. QUESTION: Is machinery and equipment classified as improvements and reported on schedule "C" of the business property statement considered as a unit with the fixtures reported on schedule "B"?
- ANSWER: No. The schedule "C" machinery and equipment improvements are considered separately from the schedule "B" fixtures.
11. QUESTION: Are the annual acquisitions of fixed machinery and equipment considered a unit or is the unit the total acquisitions for all years?
- ANSWER: Each year's acquisitions of fixed machinery and equipment is considered a unit and valued separately.
12. QUESTION: Is there an automatic reduction in the value of a possessory interest as the term of possession declines?
- ANSWER: No. The full cash value of the possessory interest is still the consideration. A new value must be calculated, using appropriate current data, to determine whether there has been any actual decline in value. Of course, the principle of a reasonably anticipated term of possession is still valid. A decline in the term specified in the written agreement does not necessarily mean an actual decline in the probable term of possession.

B. CALAMITY PROCEDURES

1. QUESTION: What is meant by "substantially equivalent" in reference to full value before and after a disaster?

ANSWER: No exact definition can be given. Essentially the assessor should be comparing the size and utility of the improvements. If an increase in value is attributable primarily to inflation and/or the newness of the improvements, substantial equivalency is probably present.

2. QUESTION: If a replacement improvement is determined to have a value that is more than substantially equivalent to the old improvement, can the difference in value be enrolled?

ANSWER: Not necessarily. Only the value of that portion of the improvement that meets the definition of new construction under Rule 463 can be added.

3. QUESTION: Are the calamity procedures contained in Revenue and Taxation Code Section 155.13 affected by these new calamity provisions?

ANSWER: No. Section 155.13 pertains to adjustments made to a current tax billing when a calamity occurs in the middle of a tax year and the provisions of this section remain in effect.

4. QUESTION: Do these new calamity regulations apply only in cases where a disaster is declared by the Governor?

ANSWER: No. The procedure applies to any property damaged by disaster or calamity. Revenue and Taxation Code Section 155.13 provisions do, of course, require a county ordinance to implement.

5. QUESTION: Do the calamity procedures apply to a property that has been sold prior to being repaired?

ANSWER: No. Property sold in a damaged condition should be revalued at the time of the sale and the value of any subsequent new construction added.

6. QUESTION: Would these calamity procedures apply to an improvement, now being restored, that was damaged prior to the passage of Proposition 8?

ANSWER: These calamity provisions apply to all properties damaged since the 1975 lien date.

7. QUESTION: Are the calamity procedures applicable only to improvements?

ANSWER: No. They are applicable to damaged property whether it is land or improvements. The unit to be considered may be land only, improvements only, or both depending upon what has been damaged.